Application No.: A.12-04-024
Exhibit No.: SCG –
Date: March 8, 2013
Witness: Krystal L. Joscelyne

Application of Southern California Gas Company (U904G) to Establish a Biogas Conditioning/Upgrading Services Tariff)))))	Application 12-04-024 (Filed April 25, 2012)

SOUTHERN CALIFORNIA GAS COMPANY

BIOGAS CONDITIONING/UPGRADING SERVICES TARIFF

REBUTTAL TESTIMONY

Prepared Direct Rebuttal Testimony

of

Krystal L. Joscelyne

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

March 8, 2013

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PREPARED DIRECT REBUTTAL TESTIMONY OF

KRYSTAL L. JOSCELYNE

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

I. INTRODUCTION

Two intervenors, Division of Ratepayer Advocates ("DRA") and the Southern California Generation Coalition ("SCGC") each submitted testimony on the matter of the Application of Southern California Gas Company ("SoCalGas" or "the Company") to establish a Biogas Conditioning and Upgrading Services Tariff. In general terms this rebuttal testimony addresses the issues raised by the intervenors related to the Biogas Conditioning/Upgrading Services Tariff's ratepayer risk exposure and ratepayer subsidization due to the ratemaking proposed. More specifically, SoCalGas' analysis of the above mentioned testimonies clearly shows:

- Intervenor testimonies err in their conclusion that ratepayers will automatically assume the risk for Biogas Conditioning/Upgrading Services Tariff costs, with no additional review or approval from the Commission.
- Objections on the recording of embedded/incremental resources and use of tracking and balancing accounts are without merit as SoCalGas has clearly shown the process and procedures already exist and are used in the normal course of business.

II. SHAREHOLDERS BEAR MORE RISK EXPOSURE THAN RATEPAYERS

A. Shareholders Primarily Bear Capital-Related Charge Exposure

SCGC claims that ratepayers are exposed to significant risk as the service fee will be based on the expected cost of service instead of the actual cost of service.[1] SoCalGas has provided a structure for how the pre-calculation of capital costs will be developed that will reach a high level of confidence that revenues will cover or exceed project costs.[2] SoCalGas will seek supplier bids prior to finalization of contract price, add appropriate contingency, and apply applicable overhead loading. SoCalGas faces substantial financial risk in the event that a project contract is underpriced. Such losses would not be recovered retroactively under the proposed ratemaking treatment and would result in below authorized earnings over the life of the project. In addition, SoCalGas has the ability to re-price the agreement 1) when there is a change in the quality or quantity of untreated biogas from the agreed upon specifications, 2) when the biogas

[1] Direct Testimony of Catherine E. Yap on Behalf of Southern California Generation Coalition, page 2, lines 19-22.
[2] DRA-A1204024-SCG-MK3-1. Response 18.

producer fails to meet any of its responsibilities under the agreement, or 3) a suspension or change in the services as a result of a change in law or some latent site defect.[3]

SCGC also errs in assuming that costs are automatically passed on to the ratepayer.[4] The Commission approves base margin charged to ratepayers on a forecast basis for the GRC cycle, any unanticipated deviations to the approved base margin will be solely at shareholder exposure. In the next general rate case, the undepreciated capital investment will be rolled into ratebase along with the miscellaneous revenues forecast, for Commission approval. A reduction to base margin was designed to keep rates neutral to this transaction; however, it will be subject to Commission approval if ratepayers are to fund tariff revenue shortfalls. This cash flow structure creates a strong incentive for SoCalGas to be conservative in cost estimation and contingency calculations—uneconomic projects will jeopardize shareholder earnings. Therefore, while no formal mechanism exists to readjust tariff obligations when cost of service differs from pre-calculated estimates, it is more likely that projects will be priced in a conservative manner and the net result will be ratepayer and shareholder benefits as tariff revenues are higher than pre-calculated estimates.[5]

DRA has concerns that "ratepayers would bear the risk for a much longer period than shareholders. Furthermore, the later years in the project life are much harder to project at the time the agreements are signed."[6] This is unfounded. As noted above, SoCalGas has the ability to modify the agreements for specific situations.

Both DRA and SCGC assert that ratepayers will bear the risk of any project that may potentially result in a customer default.[7] SoCalGas has provided a very clear process that will occur if a default event were to occur. SoCalGas will first exhaust all commercial and legal remedies to collect the remaining balance due and the required costs to remove and redeploy the asset from the customer premises. If the asset cannot be redeployed it will be retired. SoCalGas shareholders bear the economic loss between GRC's until the remaining undepreciated capital invested is rolled-in to ratebase along with miscellaneous revenues forecasts associated with Biogas

[3] DRA-A1204024-SCG-MK3-1. Response 21.
[4] Direct Testimony of Catherine E. Yap on Behalf of Southern California Generation Coalition, page 3, lines 4-24.
[5] It is also noted that SCGC does not acknowledge the scenario in which SoCalGas has overpriced the agreement in relation to the cost. In this case, in the next general rate case, ratepayers would receive the benefit subject to Commission approval.
[6] Direct Testimony of Catherine E. Yap on Behalf of Southern California Generation Coalition, page 3, lines 4-24.
[7] Direct Testimony of Catherine E. Yap on Behalf of Southern California Generation Coalition, page 5, line 21 through page 6, line 4; Report on the Application of Southern California Gas Company to Establish a Biogas Conditioning and Upgrading Service Tariff, page 21, line 9 through page 22, line 8.

Conditioning/Upgrading Services Tariff for approval in the subsequent GRC.[8] The Commission approves base margin charged to ratepayers on a forecast basis for the GRC cycle, any unanticipated deviations to the approved base margin will be solely at shareholder exposure. The shareholder remains exposed to the potential that the Commission will deny the retired asset to be rolled-into ratebase in the next GRC.

B. Shareholders Primarily Bear O&M-Related Charge Exposure

SCGC further claims that the tariff does not state whether the BCS customer will be responsible for escalation in O&M costs over time or whether ratepayers would be required to absorb the difference between rising costs and a fixed BCS payment.[9] Similar to the Capital-Related Charge, the O&M-Related Charge will be customer specific. SoCalGas will work with the customer to develop an O&M structure acceptable to both parties - which may include an escalation factor. SoCalGas' intent is to charge the customer for all costs and not burden ratepayers with any costs. The Commission approves base margin charged to ratepayers on a forecast basis for the GRC cycle, any unanticipated deviations to the approved base margin will be solely at shareholder exposure.

Similarly, SCGC has concerns with the use of third-party O&M providers in the case of the O&M provider being unable to perform for the contract term and a new provider requiring a higher fee[10] as well as unanticipated O&M costs being passed on to ratepayers automatically.[11] Again, shareholders would be exposed to the pricing differential in the interim GRC cycle. At the next GRC, SoCalGas would present the cost differential for recovery upon Commission approval based on forecasts of future costs, but this is not a guarantee of cost recovery.

DRA and SCGC err in the assumption that while third-party general liability insurance claims for BCS projects might be absorbed by shareholders initially, they would become part of cost in the base year and thus increase the test year insurance expenses for ratepayers.[12] To the extent that biogas-related claims increase our self-insured retention costs or insurance costs,

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[8] DRA-A1204024-SCG-MK3-1. Response 10b.
[9] Direct Testimony of Catherine E. Yap on Behalf of Southern California Generation Coalition, page 2, lines 23-25.
[10] Direct Testimony of Catherine E. Yap on Behalf of Southern California Generation Coalition, page 4, lines 18-25.
[11] Direct Testimony of Catherine E. Yap on Behalf of Southern California Generation Coalition, page 4, lines 25-27.
[12] Direct Testimony of Catherine E. Yap on Behalf of Southern California Generation Coalition, page 5, lines 6-8; Report on the Application of Southern California Gas Company to Establish a Biogas Conditioning and Upgrading Service Tariff, page 10, lines 5-14.

there could be a related change to the cost forecasts we present to the Commission in future GRCs, which, again will be incorporated into rates only at Commission discretion.[13]

III. THE PROPOSED RATEMAKING ACCURATELY AND TRANSPARENTLY CREDITS RATEPAYERS

A. Embedded Cost Tracking is Robust and Transparent

DRA claims in their testimony that all incremental cost recovery depends on the accuracy and veracity of SoCalGas' record keeping and does not account for indirect costs such as hiring and training of new employees.[14]

In my Prepared Direct Testimony I note that SoCalGas utilizes the enterprise application software SAP to track and account for costs throughout the Company. SoCalGas uses the SAP system to create various types of internal orders in which costs directly related to a project are tracked. SoCalGas' accounting department creates internal orders for tracking of costs. The process SoCalGas will use for tracking cost related to Biogas Conditioning/Upgrading Services Tariff customers is no different than the process that is used in tracking costs in the ordinary course of business. Furthermore, managers of groups providing labor and non-labor will be trained to ensure that any time or materials associated with the Biogas Conditioning/Upgrading Services Tariff are properly recorded to Biogas Conditioning/Upgrading Services Tariff internal orders.[15]

The major cost components of the Biogas Conditioning/Upgrading Service Tariff are incremental capital and O&M expenses. It is expected that these two components will be contracted on a turnkey basis for the capital component and contracted to a third party service provider for the maintenance. Therefore, both of these direct cost components are easily identifiable and can be directly traced via specific cost element accounts. The remaining cost component is SoCalGas' labor portion. The tracking of labor expenses is common practice within the Company. All labor time is tracked and inputted into a tracking system by timekeepers. SoCalGas employees who directly support projects routinely charge their specific time to internal orders created for those specific projects.

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[13] DRA-A1204024-SCG-MK3-2. Response 3c.
[14] Report on the Application of Southern California Gas Company to Establish a Biogas Conditioning and Upgrading Service Tariff, page 9, line 26 through page 10, line 4.
[15] Prepared Direct Testimony of Krystal L. Joscelyne, page 3, lines 1-4.

Additionally the cost associated with recruiting and hiring, customarily performed by the Human Resources department, has been captured in the Administrative and General overhead – this "overhead represents cost of administrative and general support provided by functional areas such as, Accounting and Finance, Human Resources, Information Technology and Tax" (Chapter III, page 7). Training would be handled within the Biofuels team and no additional personnel will be required or hired to train a new employee.[16]

B. Additional Cost Tracking is Redundant

DRA states in their testimony that costs should be tracked and recovered in a transparent manner and by using the core fixed cost account and non-core fixed cost account would obscure the true amounts of ratepayer funding used to support the proposed tariff and make it more difficult to ensure that ratepayers are not unduly subsidizing the tariff.[17] DRA's suggestion of creating a new balancing account is unnecessary. Under this suggestion SoCalGas will unnecessarily waste resources creating and maintaining a balancing account when a mechanism already exists. Furthermore, any new balancing account will accomplish the same function as the proposed accounts – credit ratepayers for embedded resource, using an interest bearing account.

DRA also claims that any balancing account established in relation to the proposed tariff should be a one-way balancing account.[18] This claim is without merit as the intent of the balancing account is to credit ratepayers for the use of embedded cost not to collect additional funds.

IV. CONCLUSION

As stated in my Direct Testimony and herein the Rebuttal, SoCalGas has provided a structure for ensuring Biogas Conditioning/Upgrading Services Tariff customers cover the full cost of service provided. SoCalGas shareholders bear the primary risk in the event the tariff customer is unable to fulfill their contractual obligations. The intervenor's conclusion that ratepayers will automatically assume the risk for Biogas Conditioning/Upgrading Services Tariff costs, with no additional review or approval from the Commission, clearly ignores the fact that

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[16] DRA-A1204024-SCG-MK3-2. Response 6c.

[17] Report on the Application of Southern California Gas Company to Establish a Biogas Conditioning and Upgrading Service Tariff, page 28, line 24 through page 29, line 8.

[18] Report on the Application of Southern California Gas Company to Establish a Biogas Conditioning and Upgrading Service Tariff, page 28, line 24 through page 29, line 8.

SoCalGas will present the cost and miscellaneous revenue forecast in the next GRC for Commission approval.

Additionally, cost tracking procedures and a mechanism to credit back ratepayers already exists, creating new balancing accounts is duplicative and unnecessary as their function will be no different than what is currently available. The arguments made by the intervenors are without merit and should be rejected by the Commission. SoCalGas respectfully asks the Commission to approve the Biogas Conditioning/Upgrading Services Tariff and the associated accounting and tracking of costs as proposed by SoCalGas.

This concludes my prepared rebuttal testimony.